

**REPORT OF THE AUDIT OF THE
RUSSELL COUNTY
SHERIFF**

**For The Year Ended
December 31, 2008**



**CRIT LUALLEN
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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE RUSSELL COUNTY SHERIFF

**For The Year Ended
December 31, 2008**

The Auditor of Public Accounts has completed the Russell County Sheriff's audit for the year ended December 31, 2008. Based upon the audit work performed, the financial statement presents fairly, in all material respects, the revenues, expenditures, and excess fees in conformity with the regulatory basis of accounting.

Financial Condition:

Excess fees increased by \$38,266 from the prior year, resulting in excess fees of \$40,049 as of December 31, 2008. Revenues increased by \$168,008 from the prior year and expenditures increased by \$129,742.

Report Comments:

- The Sheriff Should Advertise For Bids On Purchases Exceeding \$20,000 In Accordance With KRS 424.260
- The Sheriff Should Adhere To County's Administrative Code or Develop His Own Personnel Policy
- The Sheriff's Office Lacks Adequate Segregation Of Duties Over Receipts And The Reconciliation Process

Deposits:

The Sheriff's deposits were insured and collateralized by bank securities.

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Mickey Garner, Russell County Judge/Executive
The Honorable Larry Bennett, Russell County Sheriff
Members of the Russell County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of revenues, expenditures, and excess fees - regulatory basis of the Sheriff of Russell County, Kentucky, for the year ended December 31, 2008. This financial statement is the responsibility of the Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a regulatory basis of accounting that demonstrates compliance with the laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the revenues, expenditures, and excess fees of the Sheriff for the year ended December 31, 2008, in conformity with the regulatory basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated November 30, 2009 on our consideration of the Russell County Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



The Honorable Mickey Garner, Russell County Judge/Executive
The Honorable Larry Bennett, Russell County Sheriff
Members of the Russell County Fiscal Court

Based on the results of our audit, we have presented the accompanying comments and recommendations, included herein, which discusses the following report comments:

- The Sheriff Should Advertise For Bids On Purchases Exceeding \$20,000 In Accordance With KRS 424.260
- The Sheriff Should Adhere To County's Administrative Code Or Develop His Own Personnel Policy
- The Sheriff's Office Lacks Adequate Segregation Of Duties Over Receipts And The Reconciliation Process

This report is intended solely for the information and use of the Sheriff and Fiscal Court of Russell County, Kentucky, and the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these interested parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

November 30, 2009

RUSSELL COUNTY
LARRY BENNETT, SHERIFF
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2008

Revenues

Federal Grants:

U.S.D.A. Community Facilities Grant	\$ 50,400		
U.S. Corp. of Engineers	11,997		\$ 62,397

State - Kentucky Law Enforcement Foundation Program Fund (KLEFPF)			30,916
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State Fees For Services:

Finance and Administration Cabinet	13,994		
Sheriff Security Services	12,501		
Transporting Mental Patients	9,461		35,956

Circuit Court Clerk			15,430
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Fiscal Court			151,509
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County Clerk - Delinquent Taxes			848
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Commission On Taxes Collected			303,882
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Fees Collected For Services:

Auto Inspections	5,915		
Accident and Police Reports	85		
Serving Papers	33,180		
Carrying Concealed Deadly Weapon Permits	2,160		
10% Add-on Fees	50,363		
Tax Advertising Fees	4,095		95,798

Other:

Miscellaneous			7,084
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Interest Earned			2,149
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Borrowed Money:

State Advancement	120,000		
Bank Note	20,000		140,000

Total Revenues			845,969
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The accompanying notes are an integral part of this financial statement.

RUSSELL COUNTY
 LARRY BENNETT, SHERIFF
 STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
 For The Year Ended December 31, 2008
 (Continued)

Expenditures

Operating Expenditures and Capital Outlay:

Personnel Services-

Deputies' Salaries	\$	325,267	
Contract Labor		2,729	

Employee Benefits-

Employer's Share Retirement - KLEFPF		4,004	
Employer Paid Health Insurance		33,907	

Materials and Supplies-

Office Materials and Supplies		13,956	
Uniforms		12,198	

Auto Expense-

Gasoline		46,957	
Maintenance and Repairs		13,668	

Other Charges-

Conventions and Travel		4,840	
Dues		1,116	
Postage		1,642	
Cell Phone		838	
Guns and Ammo		3,961	
Radio		2,476	
Technology Upgrade		15,601	
Transporting		1,919	
Miscellaneous		730	
Reimbursement		1,606	

Capital Outlay-

Vehicles		84,064	
Vehicle Lease Payments		16,715	\$ 588,194

Debt Service:

State Advancement		120,000	
Bank Note		20,000	
Bank Note Interest		181	140,181

Total Expenditures			<u>\$ 728,375</u>
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The accompanying notes are an integral part of this financial statement.

RUSSELL COUNTY
 LARRY BENNETT, SHERIFF
 STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
 For The Year Ended December 31, 2008
 (Continued)

Net Revenues		\$	117,594
Less: Statutory Maximum			<u>74,020</u>
Excess Fees			43,574
Less: Training Incentive Benefit			<u>3,525</u>
Excess Fees Due County for 2008			40,049
Payments to Fiscal Court - December 31, 2008	\$	40,000	
May 6, 2009		<u>49</u>	<u>40,049</u>
Balance Due Fiscal Court at Completion of Audit		\$	<u><u>0</u></u>

The accompanying notes are an integral part of this financial statement.

RUSSELL COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 2008

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of revenues over expenditures to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

KRS 64.820 directs the fiscal court to collect any amount, including excess fees, due from the Sheriff as determined by the audit. KRS 134.310 requires the Sheriff to settle excess fees with the fiscal court at the time he files his final settlement with the fiscal court.

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this regulatory basis of accounting revenues and expenditures are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive) at December 31 that may be included in the excess fees calculation:

- Interest receivable
- Collection on accounts due from others for 2008 services
- Reimbursements for 2008 activities
- Tax commissions due from December tax collections
- Payments due other governmental entities for payroll
- Payments due vendors for goods or services provided in 2008

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

RUSSELL COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2008
(Continued)

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost-sharing, multiple-employer, defined benefit pension plan that covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members.

Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 16.17 percent for the first six months and 13.50 percent for the last six months of the year. Hazardous covered employees are required to contribute 8 percent of their salary to the plan. The county's contribution rate for hazardous employees was 33.87 percent for the first six months and 29.50 percent for the last six months of the year.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report which is a matter of public record. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601-6124, or by telephone at (502) 564-4646.

Note 3. Deposits

The Russell County Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The Russell County Sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of December 31, 2008, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

RUSSELL COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2008
(Continued)

Note 4. Miscellaneous Drug Account

Under the terms mandated by the Commonwealth of Kentucky, the Russell County Sheriff receives proceeds from the confiscation, surrender, or sale of real and personal property involved in drug related convictions. These funds are used exclusively for operating expenditures incurred for law enforcement activities against drug related activities are not included in excess fees. As of January 1, 2008 the account had a balance of \$4,296. Receipts and expenditures for 2008 were \$1,195 and \$3,356 respectively, leaving a balance of \$2,135 as of December 31, 2008.

Note 5. Cruiser Project Account

During 2008, the Russell County Sheriff's Office and the Russell County Fiscal Court received a Community Facilities Grant from the United States Department of Agriculture to purchase four police cruisers. Based upon the grant agreement, the Russell County Fiscal Court was required to make a contribution of \$41,300 toward the cost of the project. A separate cruiser project account was opened in September 2007 and on November 28, 2007 the Fiscal Court deposited \$41,300 into the account. Therefore, on January 1, 2008 the account had a balance of \$41,300. Receipts and expenditures for 2008 were \$50,902 and \$92,202 respectively, leaving a \$0 balance as of December 31, 2008.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Mickey Garner, Russell County Judge/Executive
The Honorable Larry Bennett, Russell County Sheriff
Members of the Russell County Fiscal Court

**Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards**

We have audited the statement of revenues, expenditures, and excess fees - regulatory basis of the Russell County Sheriff for the year ended December 31, 2008, and have issued our report thereon dated November 30, 2009. The Sheriff's financial statement is prepared in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Russell County Sheriff's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Sheriff's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Sheriff's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the regulatory basis of accounting such that there is more than a remote likelihood that a misstatement of the entity's financial statement that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the deficiency described in the accompanying comments and recommendations to be a significant deficiency in internal control over financial reporting.

- The Sheriff's Office Lacks Adequate Segregation Of Duties Over Receipts And The Reconciliation Process



Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statement will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider the significant deficiency described above to be a material weakness.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Russell County Sheriff's financial statement for the year ended December 31, 2008, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying comments and recommendations.

- The Sheriff Should Advertise For Bids On Purchases Exceeding \$20,000 In Accordance With KRS 424.260
- The Sheriff Should Adhere To County's Administrative Code Or Develop His Own Personnel Policy

This report is intended solely for the information and use of management, the Russell County Fiscal Court, and the Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

November 30, 2009

COMMENTS AND RECOMMENDATIONS

RUSSELL COUNTY
LARRY BENNETT, SHERIFF
COMMENTS AND RECOMMENDATIONS

For The Year Ended December 31, 2008

STATE LAWS AND REGULATIONS:

The Sheriff Should Advertise For Bids On Purchases Exceeding \$20,000 In Accordance With KRS 424.260

During 2007 the Russell County Fiscal Court applied for a Rural Housing Service Community Facilities Grant from the United States Department of Agriculture to purchase four cruisers for the Russell County Sheriff's Department. Based upon the grant agreement, the Russell County Fiscal Court was required to make a contribution of \$41,300 toward the cost of the project, with the rest being paid with grant proceeds. The original grant proposal submitted included a quote from a state price contract vendor for four 2007 Dodge Chargers. Therefore, no advertised competitive bidding was required since the vehicles were to be purchased using the state price contract. The grant was approved and the agreement was signed on September 8, 2007. Subsequent to the grant approval, the Sheriff decided against purchasing the Dodge Chargers from the state price contract vendor and instead purchased four 2008 Ford Crown Victoria's from a local vendor. It was noted the local vendor charged the Sheriff's Department the same price as the state price contract. Since the Sheriff did not purchase from the state price contract vendor, advertised competitive bidding was required. Per KRS 424.260 "no...sheriff...may make a contract, lease, or other agreement...involving an expenditure of more than twenty thousand dollars (\$20,000) without first making newspaper advertisement for bid." In the future, we recommend the Sheriff comply with KRS 424.260 by advertising for bids on purchases exceeding \$20,000.

Sheriff's Response: The official did not respond.

The Sheriff Should Adhere To County's Administrative Code Or Develop His Own Personnel Policy

During our review of payroll it was noted the Sheriff does not have a written personnel policy regarding employees' vacation and sick leave earned and used during the year nor does the office follow the county administrative code. Per KRS 68.005, the Fiscal Court shall adopt a county administrative code, which includes but is not limited to personnel administration. We recommend the Sheriff either adopt and comply with the county's administrative code or confer with the County Attorney to develop and implement his own written personnel policy for the office. Once policy is developed, we recommend it be presented to Fiscal Court for approval. We also recommend the Sheriff maintain appropriate records in order to account for leave balances.

Sheriff's Response: The official did not respond.

RUSSELL COUNTY
LARRY BENNETT, SHERIFF
COMMENTS AND RECOMMENDATIONS
For The Year Ended December 31, 2008
(Continued)

INTERNAL CONTROL - MATERIAL WEAKNESS:

The Sheriff's Office Lacks Adequate Segregation Of Duties Over Receipts And The Reconciliation Process

Segregation of duties over receipts and the reconciliation process or implementation of compensating controls, when needed because the number of staff is limited, is essential for providing protection to employees in the normal course of performing their duties and can also help prevent inaccurate financial reporting and/or misappropriation of assets.

A lack of segregation of duties exists over the receipt and reconciliation process in the Sheriff's office because a limited number of employees are available to properly segregate these job duties.

Two office employees rotate preparation of the daily checkout sheet and the daily deposit. However, the bookkeeper does all posting to the receipts ledger. Per the bookkeeper, the Sheriff occasionally recounts the daily deposit and reviews the daily checkout sheet. Per the auditor's observation, the Sheriff's review is undocumented.

In addition, the bookkeeper prepares the monthly bank reconciliation, as well as posts to the receipt and disbursement ledgers. The bookkeeper also performs the comparison of the daily, monthly, and quarterly reports to the ledgers. It was noted that no other individual reviews the monthly bank reconciliation.

To adequately protect employees in the normal course of performing their duties and/or prevent inaccurate financial reporting or misappropriation of assets, we recommend the Sheriff delegate the receipt and reconciliation process to other employees. If, due to a limited number of staff, that is not feasible, strong oversight over those areas should occur and involve an employee not currently performing any of those functions. Additionally, the Sheriff could also provide this oversight. The individual providing this oversight should initial source documents as evidence of review.

Sheriff's Response: The official did not respond.

